

Message Text

UNCLASSIFIED

PAGE 01 PRAGUE 00292 01 OF 02 021500Z
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R 021302Z FEB 78
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TO SECSTATE WASHDC 4636
INFO USDOC WASHDC
USDA WASHDC
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AMEMBASSY BUCHAREST
AMEMBASSY BUDAPEST
AMEMBASSY MOSCO
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AMEMBASSY VIENNA
AMEMBASSY WARSAW
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UNCLAS SECTION 1 OF 2 PRAGUE 0292

VIENNA FOR AGATT; BRUSSELS FOR USEEC

E.O. 11652: N/A
TAGS: EALR,EGEN, CZ
SUBJ: ECONOMIC RESULTS FOR 1977

REF: A) PRAGUE 0186, B) 77 PRAGUE A-57, C) 77 PRAGUE 0351

1. SUMMARY: PRELIMINARY ECONOMIC STATISTICS FOR 1977, RECENTLY PUBLISHED BY GOC, SHOW SECOND YEAR OF SIXTH FIVE-YEAR PLAN TO HAVE BEEN SLIGHT IMPROVEMENT OVER 1976, BUT CERTAIN KEY FIVE YEAR GOALS PUT FORWARD IN APRIL 1976 NOW SEEM CLEARLY UNATTAINABLE. NATIONAL INCOME AND INDUSTRIAL PRODUCTION GREW MODERATELY, BUT IMPRESSIVE AGRICULTURAL GROWTH RATE (7.9 PERCENT) PRIMARILY REFLECTS 1977
UNCLASSIFIED

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PAGE 02 PRAGUE 00292 01 OF 02 021500Z

RECOVERY FROM DISASTROUS DROUGHT OF THE PREVIOUS YEAR. END SUMMARY.

2. GOC RECENTLY PUBLISHED STATISTICAL SUMMARY OF ECONOMIC PERFORMANCE IN 1977. FIGURES ON KEY SECTORS FOLLOW:
(A) NATIONAL INCOME INCREASED BY 4.5 PERCENT

OVER 1976, A MODERATE INCREASE OVER THE PREVIOUS YEAR'S DISAPPOINTING GROWTH RATE OF 4 PERCENT, BUT STILL CONSIDERABLY LESS THAN THE 4.9 - 5.2 PERCENT NEEDED ANNUALLY TO MEET SIXTH FYP TARGETS.

(B) GROWTH RATE IN INDUSTRIAL PRODUCTION WAS ALSO SLIGHTLY QUICKER THAN RATE REGISTERED IN 1976 WITH AN INCREASE OF 5.7 PERCENT OVER PREVIOUS YEAR (AS COMPARED TO 5.5 PERCENT INCREASE 1976 SHOWED OVER 1975). SUCH A RATE, HOWEVER, WILL NOT ENABLE THE CZECHOSLOVAKS TO REACH THE 33 PERCENT INCREASE SOUGHT BY 1980. CERTAIN MAJOR INDUSTRIES MADE FOLLOWING GAINS: CHEMICAL, 6.3 PERCENT; GENERAL ENGINEERING, 7.7 PERCENT; CONSUMER GOODS, 4.3 PERCENT; FOOD PROCESSING, 6.4 PERCENT; COAL PRODUCTION, 2.9 PERCENT (ALTHOUGH PRODUCTION OF BLACK COAL WAS 1.1 PERCENT LESS THAN 1976); ELECTRICAL POWER, 5.8 PERCENT; METALLURGY, 3.2 PERCENT; AND MATERIALS FOR CONSTRUCTION, 5.3 PERCENT. A TELLING INDICATION OF HOW FAR THIS ONCE-PROUD INDUSTRIAL NATION HAS SLIPPED IS UNIVERSAL CONDEMNATION OF NEW MODEL SKODA INTRODUCED IN 1977 MODEL YEAR. POOR QUALITY OF THIS AUTOMOBILE HAS BEEN PUBLICIZED IN WEST, AND CZECHOSLOVAK BUYERS HAVE SHUNNED IT DESPITE HIGH VOLUME OF PERSONAL SAVINGS AND PUBLIC DESIRE TO CONVERT MONEY INTO HARD ASSETS. PRODUCTION OF PERSONAL AUTOMOBILES TOTALED ONLY 88.8 PERCENT OF 1976 OUTPUT, WHICH CAN

UNCLASSIFIED

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PAGE 03 PRAGUE 00292 01 OF 02 021500Z

BE INTERPRETED AS A SIGN OF RATIONALITY IF THE DECREASE IN FACT REFLECTS MANAGEMENT'S REACTION TO SOFTENED DEMAND FOR SKODAS; UNFORTUNATELY, UNSOUGHT DIFFICULTIES IN AUTOMOTIVE INDUSTRY PROVIDE EQUALLY PLAUSIBLE EXPLANATION. THAT CZECHOSLOVAK INDUSTRY DOES NOT NECESSARILY GEAR ITS PRODUCTION TO DEMAND IS APTLY DEMONSTRATED BY THE 0.8 PERCENT DROP IN BEER PRODUCTION.

(C) AFTER TWO SUCCESSIVE NEGATIVE GROWTH YEARS, AGRICULTURAL PRODUCTION WENT UP BY 7.9 PERCENT. GROSS PRODUCTION WAS VALUED AT 80.3 BILLION CROWNS, OF WHICH 36.4 BILLION WAS IN PLANT PRODUCTION AND 43.9 BILLION IN ANIMAL PRODUCTION. PER HECTARE OUTPUT IN 1977 WAS 8.2 PERCENT HIGHER THAN 1976. THE TURNAROUND IN AGRICULTURE IS PARTICULARLY WELCOME NEWS FOR GOC SINCE THIS SECTOR HAS BEEN A DEFINITE DRAG ON THE REST OF THE ECONOMY IN RECENT YEARS.

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PAGE 01 PRAGUE 00292 02 OF 02 021421Z
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UNCLAS SECTION 2 OF 2 PRAGUE 0292

VIENNA FOR AGATT; BRUSSELS FOR USEEC

(D) INVESTMENT, WHICH INCLUDES ALL CONSTRUCTION AND NEW CAPITAL GOODS, INCREASED BY 6.3 PERCENT OVER 1976 TO A TOTAL OF 127.4 BILLION CROWNS. THIS EFFORT FELL 0.5 PERCENT SHORT OF PLAN, WITH CONSTRUCTION ACHIEVING ONLY 96.7 PERCENT OF SCHEDULED OUTPUT (DELIVERIES OF MACHINERY AND OTHER EQUIPMENT WERE 3.6 PERCENT ABOVE PLAN). ON THE RESIDENTIAL HOUSING FRONT, 133.4 THOUSAND APARTMENTS WERE COMPLETED IN 1977, REPORTEDLY 3.5 PERCENT MORE THAN PLANNED.

(E) FOREIGN TRADE TURNOVER INCREASED BY 12 PERCENT WITH, AS USUAL, GREATER SUCCESS RECORDED WITH CEMA TRADING PARTNERS. EXPORTS TO CAPITALIST
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 PRAGUE 00292 02 OF 02 021421Z

COUNTRIES AGAIN LAGGED BEHIND PLAN (BY AN UNSPECIFIED AMOUNT) WITH SPECIAL DIFFICULTIES NOTED FOR ENGINEERING PRODUCTS.

(F) LABOR PRODUCTIVITY INCREASED BY 4.7 PERCENT OVER 1976, BUT THE 83 PERCENT OF INCREASED INDUSTRIAL OUTPUT ACCOUNTED FOR BY INCREASED PRODUCTIVITY WAS 1 PERCENT LESS THAN PLANNED. ACCORDING TO PLAN, INCREASES IN WAGES AND INCREASES IN PRODUCTIVITY ARE TO MAINTAIN THE SAME RATIO, BUT IN 1977 THE RATIO WAS BROKEN AS PRODUCTIVITY DID NOT KEEP PACE WITH WAGE INCREASES AND AVERAGE INDUSTRIAL WAGE CLIMBED TO 2545 CROWNS PER MONTH. WAGES IN THE "SOCIALIST" SECTOR (INCLUDING STATE FARMS BUT EXCLUDING AGRICULTURAL COOPERATIVES) INCREASED BY 3.5 PERCENT TO 2,447 CROWNS PER MONTH (WHICH, APPARENTLY BY COINCIDENCE, WAS PRECISELY THE AVERAGE INDUSTRIAL WAGE RECORDED IN 1976).

3. COMMENT: ECONOMIC PERFORMANCE IN 1977 SHOWED MARGINAL IMPROVEMENT OVER 1976. ESPECIALLY GOOD NEWS FOR CZECHOSLOVAKS IS THE AGRICULTURAL RECOVERY, WHICH SHOULD EASE THE STRAINS AGRICULTURAL DEFICIENCIES HAVE CREATED FOR MANY OTHER ECONOMIC SECTORS. YET THERE ARE NO SIGNS THAT THE STRUCTURAL PROBLEMS IN THIS ECONOMY ARE BEING ATTACKED EFFECTIVELY, OR THAT THE CSSR IS ON THE VERGE OF SIGNIFICANT ECONOMIC ADVANCE. FOR EXAMPLE, THE LIMITED INFORMATION PROVIDED ON FOREIGN TRADE INDICATES WORSENING DEFICIT WITH WESTERN TRADE PARTNERS, AND PERSISTENCE OF RUMORS ON DRASTIC MONETARY REFORM (DESPITE GOC DENIAL REPORTED REF A) INDICATES LACK OF POPULAR CONFIDENCE IN HEALTH OF CZECHOSLOVAK ECONOMY. CZECHOSLOVAK ECONOMIC PLANNERS CAN BREATHE SIGH

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PAGE 03 PRAGUE 00292 02 OF 02 021421Z

OF RELIEF THAT THEY SURVIVED ANOTHER YEAR, BUT THE BASE ON WHICH THEY MUST BUILD IN 1978 IS ONLY SLIGHTLY MORE SOLID THAN LAST YEAR'S STARTING POINT.

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